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UNCLAS SECTION 01 OF 02 LISBON 002571

SIPDIS

C O R R E C T E D C O P Y (ADDRESSEES ADDED)

SIPDIS

STATE FOR EEB/TPP/ABT GARY CLEMENTS
COMMERCE FOR ITA/OTEXA MARIA D'ANDREA
USTR FOR CAROYL MILLER

E.O. 12958: N/A

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SUBJECT: PORTUGAL: 2006 TEXTILE AND APPAREL SECTOR OVERVIEW

REF: STATE 114799

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SECTOR OVERVIEW

1. SUMMARY: In 2006, the Textile/Apparel sector represented Portugal's largest industrial/manufacturing sector, accounting for 11.8% of industrial/manufacturing exports, primarily to Spain, Italy, France, Germany and the United Kingdom. Textile/Apparel manufacturers are concentrated in the north of the country and employ approx. 230,000 laborers, down 4.7% from 2005. Over the last decade, the industry has seen a steady decline in production and employment due to global competition, market liberalization and reduced Asian quota policies within the European Union (EU), of which Portugal is a member. END SUMMARY.

2006 ECONOMIC STRUCTURE AND STATISTICS

2. SOURCES: The 2007 Economist Intelligence Unit (EIU) Report; Ministerio da Economia e da Inovacao - Gabinete de Estrategia e Estudos (GEE); Instituto Nacional de Estatistica (INE); Associacao Textil e Vestuario de Portugal (ATP); Instituto das Empresas para os Mercados Externos (ICEP); Centro de Estudos Texteis Aplicados (CENESTAP); EUROSTAT; Associacao Nacional das Industrias de Vestuario e Confeccao (ANIVEC); The European Apparel and Textile Organization (EURATEX).

- GDP in USD: 194.9 billion

- Real GDP Growth: 1.3%

- Origins of GDP:

- Retail, Services Other 54.6%
- Agriculture/Fishing 2.8%
- Energy (Electricity, Gas and Water) 2.8%
- Industry/Manufacturing 15.7%
- Construction 6.3%
- Restaurants and Tourism 17.8%

- National Labor Force: 5.16 million

- Industry/Manufacturing Labor Force (incl. Energy): 1.59 million

- Textile/Apparel Labor Force: 230,000
- Textile/Apparel Companies in Business: approx. 3,000
- Textile/Apparel Imports in USD: 3.83 billion
- Textile/Apparel Percent of Industry Imports: 6.4% (down 3.2% from 2005)
- Textile/Apparel Exports in USD: 5.39 billion
- Textile/Apparel Percent of Industry Exports: 11.8% (down 12% from 2005)
- Textile/Apparel Imports from US in USD: 158.1 million
- Textile/Apparel Exports to US in USD: 340.7 million
- Principal Destinations for All Exports:
 - EU-25 77.2%
 - Spain 28.4%
 - Germany 13.1%
 - France 12.4%
 - UK 7.1%
 - Italy 4.1%
 - Other EU 34.9%
- Principal Origins for All Imports:
 - EU-25 75.5%
 - Spain 30.5%
 - Germany 13.8%
 - France 8.4%
 - Italy 5.8%
 - UK 4.3%
 - Other EU 37.2%

ADDITIONAL INFORMATION

13. QUESTION: Are host country producers receiving lower

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prices due to heightened international competition?

ANSWER: In 2006, heightened international competition caused by the 2005 liberalization of the international textile and apparel market, and the European Union's decision not to impose quotas on select Chinese imports, negatively impacted Portuguese producer prices. According to INE, apparel and footwear products cost on average 17% less in 2006 than in 12005. Many Portuguese producers, mostly small- and medium-sized enterprises, made little or no profits and over a dozen were forced to close.

14. QUESTION: Have U.S. and EU restrictions on certain exports of textiles and apparel from China, effective through 2007/2008, affected export prospects for host country manufacturers?

ANSWER. In 2006, the European Commission adopted anti-dumping measures that imposed high duties on select Chinese imports, including textiles. While these measures were supposed to safeguard European Union producers, many have complained that the Chinese avoided these duties by purposely mislabeling imported goods.

15. QUESTION: Has the host government implemented, or is it considering implementing, safeguards or other measures to reduce growth of imports of Chinese textile and apparel products into the host country? Does the host government have policies or programs in place to deal with any dislocated workers in the sector resulting from increased competition?

ANSWER: In 2006, the National Assembly recommended a proposal

to the government to rejuvenate the struggling textile and apparel industry, but to date, the GOP has not introduced any new laws. The proposal called for the promotion of innovative and new technologies; the creation of professional development programs for industry employees and entrepreneurs; more linkages between SMEs and universities/professional training institutes; the adoption of measures that require bilateral and multilateral commercial agreements to include unemployment benefit measures; the creation of programs to combat clandestine, illegal or underage employment; the establishment of support funds to bail-out struggling businesses; the creation of banking programs that guarantee loans to already-established and new producers; the promotion of regional diversification programs that spread manufacturers throughout Portugal as opposed to just in the North; and the creation of incentives for companies that manufacture culturally significant national products.

¶6. QUESTION: Has increased global competition affected local labor conditions by causing employers to reduce wages, seek flexibility from government required minimum wages, or adversely affected union organizing?

ANSWER: Although the GOP approved several small changes to the labor laws in 2007, no move has been made to alter the current labor structure which bars employers from altering employment terms and fines them for dismissing laborers.

¶7. QUESTION: Overall, if not already addressed, does post think that the host country can be competitive in textiles and apparel exports given heightened global competition?

ANSWER: No longer able to compete based on relatively cheap labor in a quota-free world, textile manufacturers must work to make the labor laws more flexible in addition to employing innovative technology. Post predicts that the textile sector will continue to shrink.

Hoffman